

MANAGEMENT CONTROLS

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Management Controls

The Department of Commerce is dedicated to maintaining integrity and accountability in all programs and operations. Management, administrative, and financial system controls have been developed to ensure that:

- all programs and operations achieve their intended results efficiently and effectively;
- resources are used in accordance with the Department's mission;
- all programs and resources are protected from waste, fraud, and mismanagement;
- laws and regulations are followed;
- reliable, complete, and timely data are maintained and used for decision-making at all levels.

We believe that the rapid implementation of the audit recommendations made by the OIG is essential to improving the efficiency and effectiveness of our programs and operations and to achieving our integrity and accountability goals. We have accordingly instituted a comprehensive follow-up program to ensure that the recommendations are implemented in a timely and cost-effective manner.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982

STATEMENT ON MANAGEMENT AND FINANCIAL CONTROLS

For the programs, organizations, and functions covered by the Federal Managers' Financial Integrity Act (FMFIA), I am pleased to report that, with the exception of the three material weaknesses identified, the Department of Commerce's systems of management controls, taken as a whole, provide reasonable assurance that the objectives of the FMFIA have been achieved. Full compliance of the Department's financial systems will be achieved upon the completion of the Department's systems modernization efforts.


Secretary of the
Department of Commerce

During FY 1999, in accordance with the requirements of FMFIA, the Department completed an evaluation of its management control system in accordance with OMB and Departmental guidelines. The objectives of our management control system are to provide reasonable assurance that:

- our obligations and costs are in compliance with applicable laws;
- our assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- the revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets;
- all programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

In addition, we continually evaluate the efficiency of our operations by using the information obtained from the reviews conducted to ensure that our systems and controls comply with the standards established by the FMFIA.

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In FY 1999, we successfully closed the material weakness, originally identified in FY 1990, related to NOAA fleet modernization. This material weakness highlighted two concerns: that NOAA's fleet was aging, with many ships in need of extensive maintenance and replacement; and that the policy of relying exclusively on Department vessels was not necessarily the best approach to meeting NOAA's data needs. Our success in eliminating this weakness is due to our continued focus on better management, to NOAA's improvements to its oceanographic and hydrographic ship-related data collection capability, and to the approval for the first of four new fisheries ships.

The Department worked closely with NOAA to identify and pursue alternatives to the exclusive use of NOAA vessels for data collection. Our program now emphasizes a mix of charters, cooperative use of university ships, and contracts for data collection as well as the continued operation of some of NOAA vessels. The program has additionally enabled the downsizing of NOAA's shore support infrastructure and has brought an associated reduction in costs.

We are continuing to work with NOAA to find the least expensive and most efficient means of meeting the agency's need for fisheries research vessels. We achieved the funding for the first of our new fisheries research ships in the FY 2000 appropriation. We have worked diligently to coordinate our design requirements with shipyards, design agents, and partnering organizations such as the University National Oceanographic Laboratory System.

- The Existing Technology and Equipment at the National Weather Service (NWS) is Outdated and Inadequate.
- Census Needs to Better Manage the Design and Implementation of the 2000 Decennial Census.
- The Department Is Not in Compliance with Central Agency Requirements for a Single, Integrated Financial System.

The Existing Technology and Equipment at the National Weather Service (NWS) is Outdated and Inadequate. We expect to eliminate this weakness by the end of FY 2000. The NWS continued its modernization and restructuring program in FY 1999, improving the accuracy and timeliness of its warnings for severe weather, flooding, and other natural hazards. For example, the agency's warnings mitigated the loss of life caused by Hurricane Floyd along the Mid-Atlantic coast and reduced the number of fatalities and injuries from tornadoes in many areas of the country. The National Centers for Environmental Prediction forecasts also mitigated economic losses in the East from the prolonged drought associated with La Niña. The NWS successfully warned of the temperature extremes of the summer heatwave across the Midwest and Northeast, the January freeze in California, and the record winter cold in Alaska.

We completed the fundamental aspects of the NWS modernization and restructuring in FY 1999, including the deployment of Advanced Weather Interactive Processing System workstations, a cornerstone of the modernization program. We also completed meteorologist placements and the transfer of service responsibility to the 121 forecast offices. As of the end of January 2000, 148 of the planned 164 weather office closures have occurred.

Census Needs to Better Manage the Design and Implementation of the 2000 Decennial Census. The reliance of the Bureau of Census on new statistical methods and automated systems makes the 2000 Decennial Census much more challenging than previous censuses. In January 1999, the Supreme Court ruled that the Census Act prohibits the use of statistical sampling to determine the population for congressional apportionment pur-

poses. The Supreme Court confirmed that statistical sampling is lawful for purposes other than apportionment. The bureau consequently adapted its plans to conduct a traditional census that would nonetheless take advantage of modern statistical methods to produce more accurate adjusted counts.

Census 2000 operations are underway and on schedule. Critically, the address list for nearly 120 million housing units nationwide is complete. Delivery of the questionnaires, the check-in of completed responses, and the preparation of follow-up visits depends on this list. Census will update the list periodically as operations identify necessary changes.

All four data capture centers and 520 local census offices are open for business. Contracts for all aspects of the data capture operation have been awarded and contractors are in place. Contracts for printing the questionnaires were awarded in March 1999, and the operation to print, address, assemble, and ship the census forms to the U.S. Postal Service or to other bureau locations began as scheduled in July 1999. Census has released the final report providing the results and recommendations from more than 40 evaluation studies conducted during the Census 2000 Dress Rehearsal. Most elements of the bureau's plan for Census 2000 were tested and evaluated in the Dress Rehearsal, and all necessary modifications have been made.

Much work nonetheless remains to be done. Staff must be recruited and trained for the local census offices and the data capture centers. The questionnaires must be distributed, their data captured, and follow-up operations conducted to ensure a full response is achieved. Duplicate responses must be eliminated and the data tabulated to create the file for apportionment counts, and finally the Accuracy and Coverage Evaluation Survey must be run to produce the accurate adjusted count that will be used for redistricting and other statistical uses.

The Department Is Not in Compliance with Central Agency

Requirements for a Single, Integrated Financial System. Many of the Department's financial systems are seriously outdated and fragmented; they are unable to provide timely, complete, and reliable financial information; they are inadequately controlled; and they are costly and difficult to maintain. Taken as a whole, the systems are not compliant with GAO principles and standards, nor with the requirements of the CFO Act, the

Joint Financial Management Improvement Program (JFMIP), nor the OMB. A modern Department-wide financial management system is urgently needed to enable us to improve dramatically our overall financial management performance. Until we implement the planned Core Financial System, the Department will continue to be exposed to those risks centered upon the operation of multiple, outdated accounting systems.

We have made much progress in addressing this material weakness, specifically in implementing a Department-wide financial management system. The Commerce Administrative Management System (CAMS) has been fully implemented at Census, with phased implementation taking place at NOAA and at the EDA. Full implementation of CAMS within the Department is anticipated by September 2004, at which time we expect to fully correct this weakness. Additionally, we are in the process of developing a corporate database that will integrate financial data from each of our reporting units to permit the preparation of consolidated statements and reports.

In addition to the weakness of the financial system as a whole, several bureaus have internal control problems that may cause material financial reporting problems. Without extensive manual intervention, the Department as a result cannot provide assurance that we fully conform to financial information standards and financial systems functional standards. Specifically there were two accounting system non-conformances identified in FY 1999 (also identified in the FY 1998 financial statement audits), which include the following: Accrued Grant Expenses and Monitoring Grant Receipts Need to Be Improved and Accounting for Property, Plant and Equipment Should Be Improved. Both of these Section 4 Non-conformances are scheduled to be resolved by September 2000.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996

Under the Federal Financial Management Improvement Act (FFMIA) of 1996, the Department is required to have financial management systems that comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level. In FY 1998, the OIG found the Department did not substantially comply with these three requirements, mainly due to the inadequacy of its financial systems. As described in the preceding section, Department financial systems are not sufficiently integrated, they lack security controls, they are improperly documented, they do not provide reliable and timely performance information, and one system does not record transactions in compliance with the SGL.

In FY 1999, we developed a remediation plan to resolve these material deficiencies and subsequently made significant progress with its implementation. Specifically, the Department was found to be in compliance with Federal accounting standards. Although at the end of FY 1999, one financial system (used by one bureau) did not meet the compliance with the SGL at the transaction level, it has now been resolved and is not expected to be reported in future years. Additionally, the Department's accounting systems non-conformance under FFMIA will be corrected with the implementation of the Core Financial System, the Commerce Administrative Management System (CAMS) and the development of a corporate database. CAMS has been designed to meet the cost accounting system criteria of SFFAS No. 4 as well as to be compliant with the financial system requirements of the JFMIP and the SGL. Core CAMS has been fully implemented at Census, and implementation has begun at NOAA and EDA. CAMS will be deployed at NIST, which provides financial services to several other bureaus, after deployment at NOAA.

Our detailed remediation plan will be forwarded to OMB and will be closely monitored until the Department is in full compliance.

REPORT ON AUDIT FOLLOW-UP

The Inspector General Act, as amended, requires that the Secretary submit semiannual reports to Congress on the final action taken for Inspector General audits. This Accountability Report includes audit follow-up activities for the six-month period from April 1, 1999 through September 30, 1999.

AUDIT FOLLOW-UP ACTIVITIES WITHIN THE DEPARTMENT

Efforts are underway to update the automated tracking system which has been used to follow the progress of implementing recommendations from the time an audit is resolved with the Office of Inspector General until it is closed or reported as completed by the bureau. We have also in the past used this system to generate the information used to prepare the Secretary's semiannual reports. When developed, the new system will allow all bureaus to transmit electronically the information that is used to review and close recommendations and to prepare the audit follow-up portion of this Accountability Report. The new system will reduce the time necessary for inputting data and report preparation, and is expected to be finalized during FY 2000.

REPORT SUMMARY AND HIGHLIGHTS

At the start of this reporting period, the balance for reports with disallowed costs totaled 88, representing \$17.4 million. (Disallowed costs are questioned costs that management has sustained or agreed should not be charged to the Government.) A total of 14 new reports were issued during the period, with costs of \$1.7 million, and final action was taken on 31 reports with disallowed costs of \$3.8 million. The balance at the end of the period was 71 reports, representing \$15.3 million.

In the summary table below, "funds to be put to better use" refers to any actions made by management to implement recommendations that funds be applied to a more efficient use. Actions of this sort taken on these reports are shown in the summary chart with a beginning balance of 36 reports and funds of \$42.7 million. Three new reports with funds totaling \$3.6 million were added during the reporting period, and final actions were taken to implement eight reports with funds of \$1.5 million. Closing balance was 31 reports, representing \$44.9 million in funds to be put to better use.

Management Controls

Performance, contract, grant, loan and financial statement audit reports with nonmonetary recommendations are also indicated in the chart. The start of the period showed a balance of 55 audit reports with management decisions on which final action had not been taken. Twenty-seven new audits were added where management decisions were made, and final action was taken to close 25 audits, for an ending balance of 57 audit reports needing final action.

SUMMARY OF ACTIVITY ON AUDIT REPORTS
APRIL 1, 1999–SEPTEMBER 30, 1999

| | DISALLOWED COSTS | | FUNDS TO BE PUT TO BETTER USE | | NONMONETARY REPORTS | TOTAL |
|-------------------|------------------|-------------|----------------------------------|-------------|------------------------|---------|
| | REPORTS | DOLLARS | REPORTS | DOLLARS | NUMBER OF REPORTS | REPORTS |
| Beginning Balance | 88 | 17,363,060 | 36 | 42,690,007 | 55 | 179 |
| New Reports | 14 | 1,698,881 | 3 | 3,646,564 | 27 | 44 |
| Total Reports | 102 | 19,061,941 | 39 | 46,336,571 | 82 | 223 |
| Reports Closed | (31) | (3,759,949) | (8) | (1,471,110) | (25) | (64) |
| Ending Balance | 71 | 15,301,992 | 31 | 44,865,461 | 57 | 159 |

The bureaus are continuing their efforts to implement audit recommendations that are more than one year old. At the end of this reporting period, a total of 80 audits are reported as being unimplemented for more than one year. Although some audits share associated reasons for not having been implemented, the reasons for final actions not being taken vary with each audit. For example, if collections for payments are annualized over several years, the audit will remain open until the final collection is made or a debt is paid. Other performance audits have recommendations that mandate construction projects, the completion of which can take several years.

In addition, because audits involve reporting funds to be put to better use, these audits will remain open until all work has been completed and the savings can be precisely calculated, in order to produce accurate reporting of the funds to be put to better use. Program development, the implementation of new financial management systems, appeals of audit determinations, and the technological enhancement of existing systems are all contributory factors to audits remaining open beyond one year after resolution. Management will continue to monitor these audits and assist, as much as possible, in the implementation process.

BIENNIAL REVIEW OF FEES

The Chief Financial Officers Act of 1990 requires biennial reviews of agency fees, rents, and other charges imposed for services and things of value it provides to specific beneficiaries as opposed to the American public in general. The objective of the reviews is to identify such activities and to begin charging fees, where permitted by law, and to periodically adjust existing fees to reflect current costs or market value so as to minimize general taxpayer subsidy of specialized services or things of value (such as rights or privileges) provided directly to identifiable non-Federal beneficiaries. The Department conducted a biennial review of its fee programs in October 1999, covering FY 1999. Accordingly, we noted that most bureaus adjust their fees where applicable to be consistent with the program and with the legislative requirement to recover the full cost of the goods or services provided to the public. However, the OIG has recently found that some program offices are not in full compliance with OMB Circular A-25, User Charges. The Department will work to resolve this issue in FY 2000.